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The Role of Consistence and Perceived Relevance for Sustainability of Sharia Banking

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Abstract

The growth of sharia banking in Indonesia is though significant not as high as expected. The present study identifies two issues, among others, that have hampered this growth. They include consistence and perceived relevance. The study intends to find out their moderating roles on effects of fairness value and halal values on perceived competitive advantage of sharia banking. The novelties of the study lies on its enrichment of perceive value theory by bring up fairness value and halal value, and the insertion of consistence and perceived relevance constructs which could be typical issues of Indonesian consumers. Respondents are regular consumers of sharia banks in Makassar city. It applies PLS for data analysis. The results should be that fairness value and halal value have significant effects on perceived competitive advantage. Consumers who sense the existence of consistence and perceived relevance find their moderating roles on the effects fairness value and halal value on perceived competitive advantage.

Keywords: Consistence; Fairness Value; Halal Value; Perceived Relevance; Perceived Competitive Advantage

JEL Classifications: M31

Introduction

Muslim population is majority in Indonesia, and this should provide have huge prospect to the growth of sharia banking. Though it enjoys continuous growth, market share is still dominated by conventional banking. Malaysia sharia banking shows a promising growth. Comparison between Indonesia and Malaysia can give discouraging picture.

According to 2019 Definitive version ranking of world best sharia finance system drawing on Finance Development Indicators, the top three positions were occupied by Malaysia, Bahrain and United Arab Emirates respectively. While the best Indonesia could achieve so far is fourth position. With the largest number of Muslim population, the first position should not be that hard to achieve (Katadata.com, 2019).

Malaysia has started the operation of sharia banking system much earlier than Indonesia has. The history of sharia banking system In Malaysia started in 1984, while in Indonesia it started in 1990-man with the operation of Muamalat Bank. It could partially explain stronger progress of sharia banking in Malaysia than that in Indonesia. Though this discouraging fact, indonesia sharia banking has a great potency to tap that most other countries lack (cbcindonesia.com, 2019).

Observing the current phenomenon of sharia banking in Indonesia, there are several levels of observation to account for. For one thing, there is a state level that describes a government play in supporting its sharia banking. In Malaysia, government provides a full and strategic support to its sharia banking development, a condition that is hard to find in Indonesia. At banking levels, there are human resources, innovation, and product varieties issues. However, this study puts forwards perceived relevance as the material issue that needs immediate tackle. This refers to attitude of public majority that religion does not cover or relate to economic or welfare concerns. It might arise from habitual thought that religion only concern with good characters (akhlaq) defined as obeying religious teachings and being contradicted to worldly pleasure. Indonesian people make quick responses to issues that are related to religious teachings in economic sphere such as the importance of concern on halal status, or making pilgrimage in tourism context. However, many Moslems are suspected on thinking that religion does not have to do with economic growth and public welfare. Religious literature, discussions and preaches rarely accentuate the relationship. Instead of the fact the religion is actually the principle to live the life, meaning that religion covers all aspect of life that anything in life should follow and be guided by religion.

The study also brings up the issue of consistence that plagues many sharia banks in the perspective of their consumers. Many people view that practices in some sharia banks follow conventional banks, diverging from their initial commitment.

The bulk of transactions by sharia banks are dominated by murabahah scheme. This scheme puts banks as a financier whose finance is required to procure goods consumers intend to purchase. The common practice shows that sharia banks tend to assume seller position of the goods, even before the they really acquire the goods. Beside this practice is already common in conventional banks, it makes the two party tend to fall in the trap of transaction without the original owner consent.

It brings up the issue of consistence. For consumers who identify the practices of sharia bank as inconsistency it might affect the way they see the bank's credibility. Consumers that sense consistence, especially in the sharia banks that might have managed to sort out the issue.

The study is interested to explore the effects of fairness and halal value on perceived competitive advantage. Fairness has been emphasized as sharia banking principle, thus it has been known as avoiding interest-based practice and implementing the treatment of consumers as partners represented by profit-sharing agreement. Sharia system also concern with halal status of the products. Besides avoiding interest-based transactions deemed as usury, sharia banking also avoids businesses considered as providing bad effects to life, or as having more bad effects than their positive effects.

The study highlights fairness value of sharia bank for several reasons. For one thing, it is related to other sharia banking principles such as partnership, transparency, positive benefits and universalism. The other one, agreement that involves the two parties' consent before entering the deal of transaction. Still other is the application of profit sharing system. Fairness becomes the conspicuous feature of sharia banking (www.aturduit.com, 2014).

The study also brings up perceived competitive advantage to denote consumers' perception that sharia banking has advantages that conventional banking commonly lacks, and which could serve as leverage to win market share. The study intends to confirm the relationship between fairness and halal values on perceived sharia bank competitive advantage. It goes further by exploring the moderating roles of perceived relevance and of perceived consistence on the effects of fairness value and halal value on perceived competitive advantage.

The study owns several novelties. It introduces fairness and ethical values on theory of perceived value within sharia banking context. All constructs in its research model are newly designed and aligned to current condition within sharia banking context. Their relationships to perceived competitive advantage are consequently new. The same case also holds true to moderating roles of perceived consistence and perceived relevance on the effects of fairness value and halal value on perceived competitive advantage. The research would enrich literature and management of sharia banking.

Theoretical Background

Perceived Value

Perceived value refers to outcomes that consumers have in mind as the result of comparison between benefits that they enjoy from consuming the products and sacrifice to get the products (Zeithaml, (1988). Thus, the first approach viewed the perceived value as composed of benefits (economic, social and relation) and cost or sacrifice (price, time, effort, risk and inconvenience) Grewal et al., 1998, Cronin et al., 2000. The credibility of an organization and its products or services could result from increased benefits or decreased sacrifice.

Further development witnesses the second approach that concern with the treatment of perceived value as one or more than one dimensions. One dimensional approach focuses on economic aspect. Multi-dimensional approach covers consumers' feeling, sense or perception. For example, Sweeney and Soutar (2001) and Sheth et al., (1991) applied five dimensions: functional, emotional, social, epistemic and conditional values.

The present study develops two new dimensions of perceived value, that is fairness and ethic values. However, it examines their respective effects. In this case, these values stand as constructs on their own, instead of dimension as part of a construct.

Fairness Value

This value refers to commitment an entity exert effort to maintains fairness as its philosophy and realize it's in all its products and services. At later phase it becomes a differentiating feature that makes recognizable vis-a-vis its counterpart. People commonly get attracted to fair treatment provided by any organization. Fairness even can serve as remedy in the case of disappointment, dissatisfaction, or failure in service provision. Fair solution could lead to satisfaction, acceptance and tolerance to any service failure. In the context of banking, sharia banking brings the philosophy of fairness reflected in its resistance to interest-based practice, fair treatment of consumers as partners in profit and loss sharing principle, agreement (akad) method that warrant consents from both consumers and bank for any transaction to proceed. Consumers even can put forward proposal for bank to consider. Many consumers regard this as important aspect that drives the decisions for relationship to an organization.

Ethics Value

There are some consumers that appreciate ethics. Their interaction to an organization or consumption to certain products is based on the ethics (Muncy and Vitell (1992). Harrison et al. (2005) state that some people concerned with the effects that a purchasing choice has on, not only themselves, but on the external world around them". Organization should not only concern with value of consumers (Dodge et al., 1996), but also with corporate ethics developed to attract certain consumers. Sharia banking is developed on the ground of philosophy of supporting good businesses and social welfare. The investments are directed to sectors that are considered to be able to bring social welfare and goodness, and otherwise sectors are avoided. This philosophy reflects ethics and could be of value to those consumers who consider ethics as important factors.

The emphasis on equality, transparency, and fairness could also serve as ethics values that set it apart from its conventional counterpart.

Means-End Chain Theory

Means-end chain theory explains that relevant attributes and benefits of a product or service affect evaluation people make regarding the product or services they consume, and future consumption as a consequence (Koo, 2006). High perception of certain values lay ground for consumers to harbor positive evaluation and feeling toward the products (Fornell et al., 1996). It means that consumers always seek products or services that offer higher values. They would prefer products or services that have value excellence over other products or services. Not only higher values affect positive evaluation towards products, but also can affect positive evaluation regarding credibility and competitive advantage of an organization. This study attempts to examine the effects of perceived values, in this case fairness and ethics values on perceived competitive advantage of sharia banking vis-a-vis conventional banking.

Hypothesis building

In line with means-end theory, sharia banking possesses several attributes that conventional counterpart lack. Not only they are absent in conventional banking, their presence are presented as a stark opposition to conventional banking. It in turn allows for alternative status for the former in the case that consumers have needs that conventional banking cannot fulfill. It also paves the way for competitive status where the former can compete with conventional banking for financial market share. Among the most prominent features are fairness and ethics. They cover all bank activities, products and services. The study views that consumers could see them both as the advantages of sharia banking. Several researches showed that values have significant effects on loyalty. The present study conceives that values could have significant effects on perceived competitive advantage. That is, explicit values can make consumers develop the thinking that an organization has competitive advantage over its competitors. Thus, it hypothesizes that:

H1. Fairness value has a significant effect on perceived competitive advantage

H2. Ethics value has a significant effect on perceived competitive advantage

Fairness and ethics are sharia banking philosophies should guide all sharia banking activities and be reflected in its services and products. Commitment and insistence in materializing them in comprehensive manner would result in consistence among consumers. If bank consistently materializes its philosophies in all its services and products, and even its innovations, people would develop perceived consistence on the bank commitment. Since fairness and ethics only attach on sharia banking, when run properly and continuously, consumers would think that the bank has competitive advantage. Perceived consistence implants the sense of bank's commitment among its consumers and thus strengthens the effects of perceived fairness and ethics values on perceived competitive advantage. Thus, it hypothesizes that:

H3. Perceived consistence moderates the effect of fairness value on perceived competitive advantage.

H4. Perceived consistence moderates the effect of ethics value on perceived competitive advantage.

Every moment and age can determine relevance of certain values. They could have different degrees of relevance in different moments. However, the morale of religion is ageless and applies to all generations in all times. People in one region could develop perception of consistence, and other could be otherwise. When is still in place, the perceive consistence could moderate the effects of perceived fairness and ethics values on perceived competitive advantage. The longer existence of conventional banking could make people develop perceived efficacy in fulfilling financial needs, and as a consequence sharia banking still struggle to acquire the same position. Thus, it proposes the following hypotheses:

H5. Perceived relevance moderates his effect of fairness value on perceived competitive advantage.

H6. Perceived relevance moderates his effect of ethics value on perceived competitive advantage.

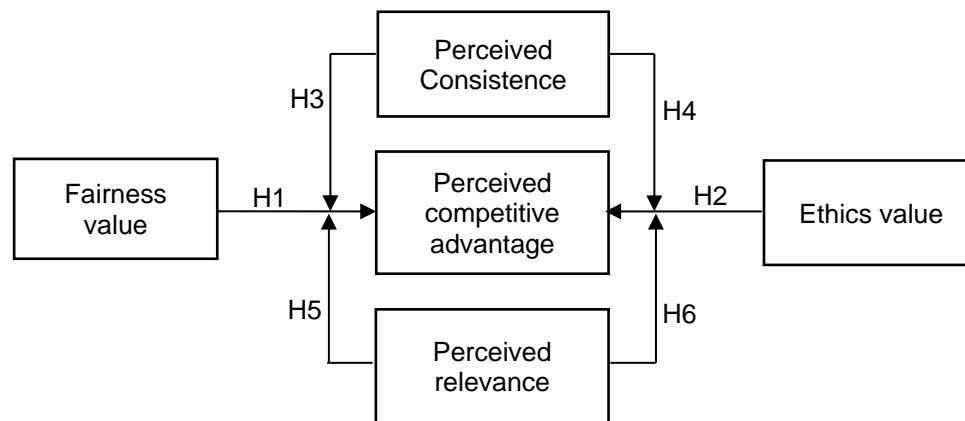


Figure 1: Research Conceptual Model

Research and Methodology

The study takes some Indonesia and Malaysia' sharia banks to find out the existence of perceived consistence and relevance extent among each country population. The contact is made through online communication. The consent should be made with banks involved in the research.

All constructs in research model are subject to content and face validity, Interviews with some experts (expert judgment) and consultation with several respondents are imperative for content and face validity. Kaiser-Meyer-Olkin (KMO) test is common for construct validity. It conducts pre-test with questionnaire distribution of 40 consumers. Malhotra's formula (1993) that minimal sample size number could be 10 times of indicators of all variables involved in the research model guides its calculation.

The complexity of research model as involving moderation analyses, and its predictive nature of research as covering new constructs justify the application of PLS tool for data analysis (Chin, 2010). Confirmatory analysis (CFA) and path analysis are important to confirm validity and reliability of researches instruments (Hair et al., 2011). T-test will be performed to find out t-stat values for moderation test.

Result and Discussion

The study conceives that fairness and ethics values have significant effects on perceived competitive advantage. Both fairness and ethics values are defining characteristics of sharia banking that separate this from conventional banking. Fairness value is obvious in sharia banking starting from avoidance of usury practice to application of agreement method and treatment of consumers as partners. Agreement method assures the performance of fairness. In mudharabah and musyarakah transactions, the prospect of profit is distributed through agreement of the two parties concerned under profit sharing system. Mudharabah transaction is agreement where a sharia bank serves as a source of financial capital to any prospect business consumers intend to run in the short future but are handicapped by lack of capital. The specifications of profits to the two parties are determined on agreement on the base of profit sharing spirit. The bank would shoulder the burden of loss, but expect the return of capital. Musyarakah transaction is cooperation between sharia bank and consumer in the form of partnership where each party agrees to provide its contribution and to burden the cost of possible loss relative to the contribution. Murabahah transaction is agreement where a sharia bank financially assists consumers who want to purchase certain goods but with financial constraint. Consumers provide complete information regarding the price, the capital of procuring the products including the profit of first seller, and profit for the bank. Other forms of transactions such as ijarah, bai'al Istina and others follow the same pattern of agreement. In these agreements, complete and detailed information is required as the component of transparency and equality that are energized by the spirit of fairness. It is in turn animated by honesty as a basic prerequisite to trust.

Sharia banking could be viewed as an ethical banking type as its operations are based on ethical considerations. Its existence as an alternative to conventional banking could be attractive to consumers with ethical awareness. Ethical element of sharia banking could serve as ethical value to them and drive them to maintain relationship to the bank. For example, Conventional banking only acknowledges transactional relationship with profit objective. Sharia banking puts consumer position higher into partnership where equality and transparency become the norms. The proportion of profit is discussed between consumers and sharia bank. Consumers have acknowledged voice and ability to put forward cooperative proposal to the bank.

The sharia banking objectives also transcend conventional banking's by covering material and immaterial welfare such as spiritual and social concerns. Sharia banking resists investment into sectors considered of having a larger content of negative potential that its positive benefits such as liquor, gambling, cigarette business and others, not to mention its resistance on investment to unclear business (gharar) that results in moral hazard. It prioritizes investments that can bring great benefit to society, economics and social development.

As fairness and ethics values are only associated to syaria banking and could be viewed as leverage to its advantage, it is justifiably conceived that they could have significant effects to perceived competitive edge. If sharia banking could consistently maintain the values through all its services, operations, and products, consumers would have heightened perception of its prospect of competitive advantage. Perceived consistence might play role in moderating the effects of fairness and ethics value on perceived competitive advantage. Without this perception, people might still attach fairness and ethics to sharia banking as they are original part of philosophy but with a lesser tendency to regard them as attractive part. Sharia banks have different determination in maintaining the consistence and could be partly influenced by innovation capability. Other factors could be consumer knowledge of sharia bank, government support for continuous innovation within sharia corridor.

Perceived relevance is also conceived to be able to moderate the effects of fairness and ethics value on perceived competitive advantage. When consumers thought that sharia banking provides still relevant solution to public welfare issue, then its perception can strengthen the effects of fairness and ethics value on perceived competitive advantage. The perceived relevance might also spring from common perspective that religion does not have to do with economic welfare. There are many narrow minded people who consider religion only concern with good character and personality as a consequence of obedience to God.

For Malaysia case, the study conceives that perceived consistence and perceived relevance contribute to strengthen the effects of fairness and ethics value on perceived competitive advantage. Sharia banking in Malaysia consistently follows sharia guidelines, free from activities that can arise the sense of resemblance to conventional banking activities. It also has a longer experience in sharia banking system implementation than Indonesia has. Sound human resources and adequate education in Malaysia allow for sophisticated innovations of products that heighten its uniqueness of sharia nature. Consumers also strongly believe that religion teachings cover all aspects of life including economy. Thus, they believe accordingly that sharia banking that follows religion teachings could serves as a solution to welfare issue.

In Indonesia, perceived consistence and relevance are conceived to insignificantly moderate the effects of fairness and ethics value on perceived competitive advantage. Other constructs might moderate more significantly the relationship. People might not look on consistence and relevance to make relationship to sharia banking, and hence do not rely these perceptions in any decisions regarding sharia banking. Other factors such as value congruence, empathy, desire to support and others might moderate the effects of fairness and ethics value on perceived competitive advantage.

Limitations and Future Research

The study only focuses on perceived consistence and relevance as moderating constructs in the effects of fairness and ethics value on perceived competitive advantage. Other factors might be operative such as value congruence, empathy, and desire to support, religiosity or even demography. Deeper research is required to explore the nature of consistence and relevance of sharia economic system in the current condition. Qualitative research could reveal underlying facts concerning the nature of consistence and relevance in both countries. Combination of qualitative and quantitative research would provide a more complete picture regarding its nature.

For Indonesia case, different respondents could bring different results for the effects of fairness and ethics value on perceived competitive advantage. Generalizations become an issue here. Further research is required for identification which sharia bank group that these significant effects apply and which do not, and what factors that cause them. The insignificant results would require research with model involving some constructs as mediators. If it is case, qualitative research to reveal the underlying facts would be instrumental.

Conclusions

The research results should be that perceived consistence and relevance significantly moderate the effects of fairness and ethics value on perceived competitive advantage for the case of Malaysian sharia banking, and significantly moderate the effects of fairness and ethics value on perceived competitive advantage for the case of Indonesian sharia banking. Malaysia has longer experience in running sharia banking than Indonesia has. Knowledge and science sharia system has been well developing under the support of government. Ample and sound human resource allows for innovations that increase its sharia distinctiveness, and strengthen its consistence. People could easily distinguish sharia banking services from its conventional counterpart, and adjust which to rely for their financial needs. People also embrace the idea of religion as a blanket solution to all aspects of life. Not many Indonesian consumers develop perceptions of consistence and relevance for sharia banking services. Several reasons might apply. Religion lessons or teaching rarely mention the religion efficacy in elevating economic welfare. Limited human resources result in minimum innovations and similarity to conventional banking products.

There is no warranty also that the significant effect of fairness and ethics values on perceived competitive edge apply to all Indonesian sharia banks. Indonesian people have different attitudes to sharia bank, not to mention their attitudes to different sharia bank types. There is no a thing as shared attitude when it comes to Indonesian people attitude in sharia banking context. It also holds to factors that affect these attitudes and resulting decisions regarding to relationship to sharia bank.

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